

Message Text

PAGE 01 SEOUL 05529 230511Z

12

ACTION EB-07

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SUBJECT: KOREA'S GATT ARTICLE 18 CONSULTATIONS

REF: (A) SEOUL 5388 (B) SEOUL 5185 (C) SEOUL 4977 (D) SEOUL 2755

(3) SEOUL 2548 (F) SEOUL 2369 (G) SEOUL A-45

(H) SEOUL A-312, DEC 27, 1974 (I) SEOUL A-192, JUN 11, 1975

(J) SEOUL A-153, JUN 5, 1974

SUMMARY: EMBASSY UNDERSTANDS KOREA'S BI-ANNUAL GATT ARTICLE 18 CONSULTATIONS ON IMPORT POLICIES JUSTIFIED BY BALANCE OF PAYMENT SITUATION WILL BE SCHEDULED SOMETIME IN COMING MONTHS. EMBASSY BELIEVES IT COULD BE HIGHLY USEFUL TO HAVE THOROUGH REVIEW OF THESE POLICIES WITH INTENT OF ESTABLISHING CLEAR RECORD OF THOSE POLICIES WHICH ARE PERMITTED AS EXCEPTIONS TO USUAL GATT RULES AND THOSE WHICH WILL EVENTUALLY HAVE TO BE MODIFIED OR ELIMINATED. UNLESS INAPPROPRIATE, EMBASSY URGES USG USE ITS INFLUENCE TO SEEK THOROUGH REVIEW. END SUMMARY.

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PAGE 02 SEOUL 05529 230511Z

1. IN COMMON WITH MOST LDC'S, KOREA MAINTAINS BOTH A HIGH LEVEL OF TARIFFS AND A WIDE ARRAY OF IMPORT RESTRICTIONS DESIGNED TO MINIMIZE NON-ESSENTIAL IMPORTS AND TO FOSTER DEVELOPMENT OF DOMESTIC INDUSTRY. AS AN LDC SIGNATORY OF GATT, KOREA

JUSTIFIES THESE MEASURES UNDER PROVISIONS OF GATT ARTICLE 18. EMBASSY UNDERSTANDS FROM MINISTRY OF FOREIGN AFFAIRS SOURCES THAT KOREA'S BI-ANNUAL CONSULTATIONS UNDER ARTICLE 18 SHOULD TAKE PLACE IN COMING MONTHS.

2. WE ASSUME KOREA WILL PROBABLY NOT HAVE ANY PARTICULAR DIFFICULTY IN ESTABLISHING CONTINUING ENTITLEMENT FOR EXCEPTIONS FOR ITS IMPORT POLICIES UNDER ARTICLE 18, GIVEN ITS CURRENT BALANCE OF PAYMENTS DIFFICULTIES AND 1974 PER CAPITA GNP OF \$513. HOWEVER, WITH TWO-WAY TRADE EXCEEDING \$11 BILLION IN 1974 AND GOOD PROSPECTS FOR FURTHER RAPID, EXPORT-LED GROWTH, KOREA WILL BECOME INCREASINGLY IMPORTANT AND DEVELOPED TRADING COUNTRY. WE BELIEVE IT DESIRABLE BEGIN EMPHASIZING KOREA'S CURRENT OBLIGATIONS UNDER GATT AND NECESSITY TO DISMANTLE RATHER THAN ADD TO VERY COMPLEX ARRAY OF IMPORT BARRIERS IN FUTURE AS KOREA MOVES OUT OF LDC CATEGORY. WE BELIEVE THAT THOROUGH REVIEW, INCLUDING U.S. PARTICIPATION, WILL SERVE TO ACCUSTOM KOREA TO LIVING UP TO ITS OBLIGATIONS FULLY.

3. AS GENERAL BACKGROUND: ROKG HAS BASICALLY PROTECTIONIST PHILOSOPHY AND SINCE OIL CRISIS IT HAS INCREASINGLY EMPHASIZED IMPORT SUBSTITUTION AS COMPLEMENT TO EXPORT PROMOTION. IT IS CURRENTLY BEING MONITORED CLOSELY BY IMF DUE TO OBLIGATION UNDER IMF OIL FACILITY TO FOREGO NEW DIRECT IMPORT RESTRICTIONS. IN MAY ROKG RELUCTANTLY CANCELLED PLANS TO EFFECT A \$2.3 MILLION REDUCTION IN IMPORTS IN 9 CATEGORIES, AFTER IMF STAFF OBJECTION. IN JUNE THE IMF BOARD MADE CLEAR IT EXPECTED ELIMINATION OF NEW DIRECT RESTRICTIONS ON 39 ITEMS IMPOSED IN APRIL TO ACHIEVE \$67 MILLION SAVING (REF E). AT SAME TIME KOREA SUFFERS FROM DIRECT RESTRICTIONS IMPOSED BY DEVELOPED COUNTRIES, NOTABLY CURRENT LIMITS BY JAPAN ON RAW SILK AND TUNA IMPORTS AND BY US (THROUGH VOLUNTARY AGREEMENTS) ON TEXTILES AND RUBBER FOOTWEAR. AS NOTED AT RECENT KOREA CG MEETING IN PARIS, IMF SETS HIGHER STANDARDS FOR KOREA AS AN LDC DUE TO ITS USE OF OIL FACILITY.
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PAGE 03 SEOUL 05529 230511Z

4. WITH REGARD TO INDIRECT IMPORT RESTRICTIONS, MOST SIGNIFICANT CHANGE THIS YEAR WAS SHARP INCREASE IN IMPORT DEPOSITS (REFS D AND G) RECENTLY EASED IN SOME RESPECTS (REF C). NUMEROUS TARIFF REVISIONS AND INTRODUCTION OF DUTY DRAWBACK SYSTEM (REFS A, B, AND F) HAVE HAD LIMITED OVERALL IMPACT BUT GENERALLY IMPROVE TARIFF SYSTEM AND STRUCTURE. SECOND HALF 1975 TRADE PLAN AND NEW PROCEDURES FOR CERTIFICATION THAT IMPORTS CANNOT BE DOMESTICALLY PRODUCED (DESCRIBED IN SEPTTEL TO FOLLOW) INVOLVE RELATIVELY MINOR CHANGES IN TERMS ITEMS RESTRICTED, BUT INCLUDE MAJOR SHIFT OF ADMINISTRATIVE RESPONSIBILITIES TO TRADE AND INDUSTRY ASSOCIATIONS WHICH MAY PROVE TROUBLESOME IN PRACTICE.

5. REFS H-J (ONLY REFS NOT SENT MTN GENEVA) ARE EARLIER
SUMMARY REPORTS ON OVERALL IMPORT REGIME, NONTARIFF BARRIERS
AND FIRST HALF 1975 TRADE PLAN.

6. WOULD APPRECIATE RECEIVING REPORT ON GATT CONSULTATIONS.
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